YUKON ENERGY CORPORATION

2005

"THANK YOU YUKON ENERG[illegible]
FOR MAKING THE SCHOLARSHIP
I RECEIVED POSSIBLE. IT IS A
GREAT IDEA TO REWARD LOCAL
STUDENTS FOR THEIR CONTINUOUS
EFFORTS. THE SUPPORT FROM
HOME IS ENCOURAGING AND THE
EXTRA MONEY REALLY HELPS OUT
WITH RENT, TUITION AND BOOKS."

– [illegible] engineering student Shawn Soderberg

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Included in our 20-year resource plan is a proposal to extend our Whitehorse/Aishihik/Faro grid from Carmacks to Stewart Crossing. This would connect Yukon Energy's two grids and give more flexibility in terms of power availability. It would also provide hydro power to new mining customers in the Central Yukon. In 2005 we began some preliminary work looking into the possibility of building a Carmacks to Stewart transmission line. This project will require meaningful consultation with First Nations and a recommendation from the Yukon Utilities Board.

Work continued this year on a new corporate structure for Yukon Energy, our parent company Yukon Development Corporation and our sibling the Energy Solutions Centre. This has led to greater accountability, transparency and simplicity of organizational structure.

2004 was a bargaining year at Yukon Energy and in 2005 a new three-year contract was implemented with our approximately 50 unionized employees.

In 2005 we became part of a national program aimed at eliminating workplace injuries and deaths among young Canadians. The Passport to Safety Program supports and encourages education and workplace-specific safety training for young people. Yukon Energy is promoting this program during the hiring process, and completion of the on-line test is an asset to young people applying for a job at our company.

For the fifth year in a row, Yukon Energy was recognized nationally for our efforts to reduce greenhouse gas emissions. We received a Gold Champion Level Reporter Award from the Canadian GHG Challenge Registry (formerly Canada's Climate Change Voluntary Challenge and Registry Incorporation), a non-profit partnership between industry and governments across Canada. We share this honour with only about 150 other Canadian companies.

As part of our commitment to the people and communities we serve, Yukon Energy awarded scholarships to ten outstanding post-secondary students in 2005. We completed the first full year of an apprenticeship and training benefits funding agreement with the Nacho Nyak Dun and Tr'ondek Hwech'in First Nations, as part of an agreement made while building the Mayo/Dawson City transmission line. We also made corporate donations worth more than $72,000 to a wide variety of Yukon non-profit groups.

I would like to take this opportunity to thank our customers for their business and continued support. Thank you as well to the dedicated and hard-working staff at Yukon Energy.

David Morrison
President and CEO

"THE YUKON IS A GOOD PLACE TO CALL HOME, WITH THE LONG DAYS OF SUMMER AND THE SNOW IN WINTER FOR PLAYING IN THE GREAT OUTDOORS."

Clint Kelland, Power Line Technician, Mayo

OVERVIEW

Established in 1987, Yukon Energy is a publicly owned electrical utility that operates as a business, at arms length from the Yukon government. We are the main generator and transmitter of electrical energy in the Yukon and we work with our parent company Yukon Development Corporation to provide Yukoners with a sufficient supply of safe, reliable electricity and related energy services.

There are almost 15,000 electricity consumers in the territory. Yukon Energy directly serves about 1,700 of these customers, most of whom live in and around Dawson City, Mayo and Faro. Indirectly, we provide power to many other Yukon communities (including Whitehorse, Carcross, Carmacks, Haines Junction, Ross River and Teslin) through distribution to the Yukon Electrical Company Limited. Yukon Electric buys wholesale power from Yukon Energy and sells it to retail customers in the territory.

Yukon Energy has the capacity to generate 116 megawatts of power. Seventy five megawatts of that are provided by our hydro facilities in Whitehorse, Mayo and Aishihik Lake (40 megawatts at Whitehorse, 30 megawatts at Aishihik and 5 megawatts at Mayo). 39 megawatts by diesel generators (which we currently only use as back-up) and 0.8 megawatts by two wind turbines located on Haeckel Hill near Whitehorse.

Yukon Energy is regulated by the *Business Corporations Act*, the *Public Utilities Act* and the *Yukon Water's Act*.

Our headquarters are located near the Whitehorse Rapids hydro plant in Whitehorse, with community offices in Mayo, Faro and Dawson City.

VISION

Yukon Energy provides reliable and cost effective energy services for customers throughout the Yukon.

MISSION

Provide a sufficient supply of safe, reliable electricity and related energy services to customers throughout the Yukon, while following sound business practices and demonstrating leadership in protecting the environment.

We undertake to:

- be responsive to our customers and their changing needs and expectations;
- commit to the safety and development of our employees;
- be cost effective in the utilization and investment of resources, always remembering that we are spending the customer's money and making long-term decisions;
- place priority on the fundamentals, that is, safe and reliable electrical services;
- demonstrate the value of Yukon-based public ownership and management;
- act ethically and honestly treating employees, customers and others with fairness, dignity and respect; and
- build enduring relations with Yukon First Nations.

VALUES

Our actions and activities are guided by our core values:

- Commitment
- Integrity
- Effective Service
- Safety
- Learning, Growth and Development
- Respect
- Teamwork
- Accountability

"YUKON ENERGY TODAY...
AND YUKON ENERGY TOMORROW."

OUR EMPLOYEES

Yukon Energy employs approximately 68 highly skilled and dedicated people in Whitehorse, Faro, Mayo and Dawson City.

Yukon Energy invested generously in employee development in 2005, with 86 percent of our workforce receiving training opportunities.

Yukon Energy completed and ratified a new three year collective agreement with our approximately 50 unionized employees. The agreement saw wage increases of 8.5 per cent over three years. Other elements of the deal include additional RRSP contributions by the company, increased location allowance and an increase in shift premiums.

Extensive work was done again this year on a new job classification plan. All union positions were re-classified in 2005 using an alternative system that's being utilized elsewhere in Canada and abroad. No employee will suffer any loss of pay as a result of this exercise.

It is important to Yukon Energy that we celebrate the achievements of our employees. We would like to congratulate our 12 employees who received Long Service Awards this year.

SUMMARY OF UTILITY OPERATIONS

	2005	2004	2003	2002	2001
Generating Capacity (in MW)					
Hydro	75	75	75	75	75
Diesel	36	36	40	40	40
Wind	1	1	1	1	1
Total	112	112	116	116	116
Peak Demand (in MW)					
WAF System	56	57	51	47	51
Mayo	4	4	5	3	3
Dawson	0	0	3	3	3
Total	60	61	59	53	57
Generation (in GWh)					
Whitehorse Rapids	202	206	208	169	141
Aishihik	81	71	61	86	107
Mayo	25	24	13	7	6
Wind	1	0	1	1	1
WAF Diesel	0	0	0	1	0
Other Diesel	0	1	11	15	15
	309	302	294	279	272
Electric Sales (in $000)					
Residential	1,397	1,395	1,370	1,359	1,285
General Service	2,838	2,216	2,104	2,094	1,963
Industrial		20	36	74	129
Wholesale	20,925	20,773	20,732	19,925	18,679
Secondary Sales	767	369	315	160	110
Other	292	131	142	156	176
	26,259	24,904	24,199	23,768	22,342
Electric Sales (MWh)					
Residential	10,169	10,189	10,001	9,852	9,564
General Service	18,438	14,016	13,375	12,829	12,547
Industrial		247	452	984	2,128
Wholesale	237,419	235,982	229,971	220,927	217,366
Secondary Sales	18,933	16,517	13,621	8,597	5,895
	284,959	276,951	267,420	253,896	247,499
Cents Per kWh (Note 1)					
Residential	13.74	13.68	13.70	14.07	13.48
General Service	15.39	15.81	15.73	16.32	15.64
Industrial		8.04	8.06	8.39	6.07
Wholesale	8.81	8.80	8.80	9.02	8.55
Secondary Sales	4.05	2.23	2.31	2.14	1.99

Note 1 The revenue amount included in the Cents per kWh calculation includes the customer rate schedule revenues and related revenues from Rider J — Revenue Shortfall Rider in decision 1998-09 and subsequently amended in Order 2003-02.

"I LOVE MY JOB AT YUKON ENERGY BECAUSE OF THE VARIETY OF WORK AND THE PRIVILEGE OF WORKING WITH A TEAM OF HIGHLY SKILLED TRADES PEOPLE. MY ADVICE FOR ANYONE WANTING EMPLOYMENT HERE IS TO ACHIEVE THE NECESSARY QUALIFICATIONS AND PROPER TRAINING AND THEN, WELCOME TO THE TEAM."

Joe Howse, Plant Operator

YUKON UTILITIES BOARD APPLICATION

The Yukon Utilities Board is the quasi-legal body that regulates utilities in the territory. In December 2004, Yukon Energy applied to the Utilities Board for a general review of our revenue requirements for 2005. A week of public hearings took place in April 2005 and the Board rendered its decision in October. Key elements of the decision are listed here.

APPLICATION ELEMENTS	DECISION
1. No general rate increase.	Request approved.
2. To fund its 2005 shortfall, Yukon Energy asked approval to create an interest-earning fixed fund — to be called the Revenue Stabilization Trust Account (RSTA) — and to transfer the balance in the Diesel Contingency Fund and the Faro Mine de-watering deferral account to that RSTA.	RSTA denied, but Yukon Energy can fund its 2005 revenue shortfall from the Faro Mine de-watering deferral account. Also, the Diesel Contingency Fund remains largely intact.
3. Re-classify the Faro mine rate to normal General Service – Government Rate.	Request approved.
4. The Secondary Sales Rate be set at 70 percent of the price of fuel oil, and the rates be adjusted quarterly to reflect the current price of fuel.	The Secondary Sales Rate set at 66.7 percent of the price of fuel oil. The request for a quarterly rate-setting mechanism is approved.
5. Permission to raise the allowed maximum the utilities can spend on new residential customer hook-ups. For new general service customers, investment maximums would increase from $180 per kilowatt of load to $400 per kilowatt.	Request approved.
6. For the purposes of setting rates, the Yukon Utilities Board must determine an allowed return on equity (ROE) for Yukon Energy. Yukon Energy proposed a ROE of 9.05 percent.	Request approved.
7. Allow $29.789 million of the Mayo/Dawson Transmission Line costs to be put in rate base.	Allowed rate base cost of $28.996 million.
	A financial review of Yukon Energy is necessary. The timing and scope will be determined later.
	Reduce training by $47,000 and Board of Directors expense by $102,000.

* More information about the Board decision can be found in Note #3 of this report's financial statements.

KEY ACTIVITIES

ELECTRICITY RATES

Yukon Energy was once again able to avoid increasing our firm rates in 2005. This is the ninth consecutive year that firm rates have remained stable.

Governments have over the years supported and even paid for a series of rate relief programs. These programs have been funded by government contributions or at times directly by the Yukon Development Corporation. In recent years the territorial government provided a $10 million contribution to fund the Rate Stabilization program. This fund has now been depleted and the program is being operated from internal funds provided by the Yukon Development Corporation. The rate relief program has been extended until April 2007. The annual cost of the Rate Stabilization Fund is approximately $3.6 million.

20-YEAR RESOURCE PLAN

A great deal of time was also spent in 2005 on a 20-year resource plan, which will guide Yukon Energy in making sound strategic and long-term decisions regarding our major assets and infrastructure. The plan, when complete, will consider the current state of Yukon Energy's core assets, how they are being maintained, and will identify the reinvestment needed to ensure their best use. It will assess our long-term (20 year) requirements and identify options for maintenance, life extension and replacement of existing facilities, and construction of new ones.

It will, for example, outline the possibilities for additional water storage in the Southern Lakes system, which could include raising the water level in Marsh Lake. It will look at whether it makes more economic sense to replace Yukon Energy's aging diesel turbines with new diesels, or instead to adopt other generating options, such as installing a third hydro unit at Aishihik. It will examine choices for supplying Whitehorse with electricity in the event of a failure on the Aishihik transmission line, from which we get most of our winter power.

Once completed in 2006, we will hold public consultation with Yukoners on the range of options under consideration. We will also request that the Yukon Utilities Board conduct a full review of the plan.

CARMACKS TO STEWART TRANSMISSION LINE PROJECT

Included in our 20-year Resource Plan is a proposal to extend our Whitehorse/Aishihik/Faro grid from Carmacks to Stewart Crossing. This would connect Yukon Energy's two grids and give more flexibility in terms of power availability. It would also provide hydro power to new mining customers in the Central Yukon. There are strong indications that both Minto and Western Silver will begin mining operations in the Pelly Crossing area within the next couple of years. With this in mind, Yukon Energy sought financial support in 2005 from the Yukon government to do planning and permitting work for a new transmission line from Carmacks to Pelly Crossing. Our hope is that the line would eventually extend to Stewart Crossing.

Yukon Energy if collaborating with the government to cover initial project planning. Yukon Energy expects to go back to the government for more funding in 2006. We believe the total bill for planning and permitting will be about $3 million. This project will only go ahead after meaningful consultation with First Nations and only on the recommendation of the Yukon Utilities Board. All environmental permits must be obtained before the transmission line is constructed. As well, this project will only move forward if Yukon government infrastructure funding ensures no adverse impact on ratepayers.

MAYO/DAWSON TRANSMISSION LINE

The Mayo to Dawson City transmission line, which has operated since the fall of 2003, involved building a 232 kilometre long transmission line and related infrastructure to connect the City of Dawson to the Mayo hydroelectric station. It has allowed Yukon Energy to supply Dawson with clean surplus hydro electricity (Dawson's diesel generators are now only used as emergency back up) and has reduced greenhouse gas by 10,000 tonnes a year.

The project is a good one that will save Yukon electrical customers more than $20 million over the life of the line. However it is significantly over its original budget estimate of $27.2 million. The final cost of the line is expected to be about $36.2 million. As a result we asked the Auditor General to conduct an audit, which was completed early in 2005. The audit identified a number of weaknesses in our internal operations and in general found that we did not apply good project management practices in the case of the Mayo/Dawson line construction.

Even before the audit was done, Yukon Energy recognized that changes needed to be made internally. We have as a result improved our capital project processes. A committee now reviews all capital project plans and makes recommendations to senior management for approval. Projects have detailed descriptions of scope and forecasted costs. We will now seek prior approval from the Yukon Utilities Board for all projects worth more than $3 million.

Yukon Energy has developed new contracting policies and guidelines that have been approved by the Board of Directors.

We are still working to resolve a number of significant project-related legal disputes and claims with the general contractor.

On a related note, Yukon Energy fulfilled its training agreements with the First Nation of Nacho Nyak Dun and the Tr'ondek Hwech'in First Nation, as part of the Mayo to Dawson Transmission Line Benefits Agreement. Through this agreement, we provide each of the two First Nations up to $15,000 a year for apprenticeship and training opportunities. The agreement is for 20 years with an option to renew for a further five years. We believe this is going a long way in helping the Tr'ondek Hwech'in and Nacho Nyak Dun achieve their training needs and is assisting members of the two First Nations to find meaningful employment.

STEWART TIE-IN

Yukon Energy, in cooperation with Yukon Electrical Company Limited, completed a project in the summer of 2005 to connect Stewart Crossing residents to the Mayo/Dawson transmission line. This tie-in with the Mayo/Dawson transmission line has allowed Stewart residents to switch to environmentally friendly hydro power, thus displacing about 148,000 litres of fuel per year and reducing greenhouse gas emissions by 420 tonnes annually.

AISHIHIK BOAT LAUNCH/HERITAGE PROJECT

Yukon Energy is obligated to carry out certain activities each year to fulfill our water licenses. In 2005 we made improvements to the Aishihik Power Canal and built a board launch at the north end of Aishihik Lake. We also filed an updated heritage mitigation plan for the Aishihik area and a water license amendment regarding our Aishihik Lake control structure, to reflect Canadian Dam Safety guidelines.

WHITEHORSE GENERATOR REFURBISHING

Over the last few years we have allotted money to overhaul one hydro generator each year. In 2005 one of our four Whitehorse hydro turbines was refurbished. The refurbished unit was back on line by late July, two months after the work began. In 2006, one of our Aishihik hydro generators will receive an overhaul.

WIND ENERGY

To assess the potential for commercial wind generated power, Yukon Energy typically operates a few monitoring stations per year throughout the territory. In 2005, Yukon Energy had two stations on Ferry Hill near Stewart Crossing and a summertime-only station on Dawson City's East Dome. If there are encouraging results from Dawson City we will look at installing a year-round monitoring station there in the near future.

SECONDARY SALES

Currently Yukon Energy has the ability to produce more hydro-generated electricity than it needs for its customers. To take advantage of the economic and environmental benefits of this surplus power, the Corporation developed a Secondary Sales Program.

This program gives eligible Yukon businesses the option of using hydro power to heat their facilities instead of diesel fuel or propane, both of which are more expensive. However, there are some stipulations: the service is limited and is fully interruptible, and the business' existing heating system must be maintained and fully operational so that it can be re-activated on 24 hours notice. A second electrically fired heating system must be added in order to utilize the secondary sales electricity as a heating source. The business must also be located in an area that is served by hydro-generated power.

Yukon Energy received final approval from the Yukon Utilities Board effective January 1, 2005 to change the retail rate charged for secondary power to 66.7 percent of the cost of heating with diesel fuel (up from approximately 42 percent). The rate is also subject to a quarterly adjustment based on the actual Whitehorse cost of diesel fuel. In 2005 secondary energy sales increased by 14.6 percent from 2004, accounting for 6.6 percent of Yukon Energy's total energy sales.

FLEX-TERM NOTE

Yukon Energy's longstanding dispute with Indian and Northern Affairs Canada (INAC) regarding the interpretation of secondary sales under a flexible term note was resolved in 2005, through a buy-out of the note by the Yukon Development Corporation. This buy-out means the Yukon now has complete ownership of the power assets previously owned by the Northern Canada Power Commission. It also means that Yukon Energy can lock in the benefits of a very favourable financing deal for the long-term benefit of ratepayers.

GOVERNANCE

In terms of governance initiatives, Yukon Energy and our parent the Yukon Development Corporation (YDC) implemented a number of measures as part of improvements to our day-to-day business. A new Letter of Expectations was negotiated with the Minister that outlines specific priorities and performance expectations regarding the two corporations. As well, new protocols were established that clearly lay out the role of YDC as the sole shareholder of Yukon Energy. The Minister was also provided with the corporations' business plans and quarterly progress reports.

"WE BECAME A PASSPORT TO SAFETY EMPLOYER BECAUSE IN OUR BUSINESS, SAFETY HAS TO BE A PART OF EVERY DECISION WE MAKE AND EVERY ACTION WE TAKE."

Ken Sawyer, Coordinator of Property and Projects, with colleague Sharon Sederberg

"YUKON ENERGY IS PROBABLY ONE OF THE BEST KEPT SECRETS IN TERMS OF REWARDING EMPLOYMENT. THE WORK IS VARIED, CHALLENGING AND SATISFYING, AND THE STAFF ARE GREAT TO WORK WITH. I THINK THIS IS THE BEST JOB I'VE EVER HAD!"

Joan Fallows, Supervisor of Customer Service

ENVIRONMENTAL STEWARDSHIP

GREENHOUSE GAS EMISSION REDUCTIONS

For the 14th consecutive year, Yukon Energy has been awarded the gold Level Reporter award for tracking, reporting and reducing carbon dioxide emissions. This is an honour we share with only about 150 other companies across Canada. This award is from the Canadian GHG Challenge Registry (formerly the Voluntary Climate Change Registry), a non-profit industry/government national partnership that works to address climate change.

WHITEHORSE RAPIDS FISHWAY

The Whitehorse Fishway, built at the same time as the dam (1958) to help migrating salmon bypass the dam to reach their spawning grounds, had another successful season this year. The fishway is owned by Yukon Energy and operated by the Yukon Fish and Game Association, and is one of the Yukon's most popular tourist attractions. Almost 30,000 visitors came to view the salmon this summer.

The facility was made even more enjoyable and educational this year with the addition of new interpretive panels and brochures, interactive games for children, and evening presentations organized by the Yukon government's Department of the Environment. For the second year in a row, First Nation elders were on hand twice a week to act as interpretive hosts to answer questions from the public, and the display material in the tent was expanded from last year. The tent and elders are proving to be a very popular addition to the facility.

There was a concerted effort this year to hire bilingual staff (French or English and German), if not, the first time in the history of the fishladder that all the attendants were fluent in two languages.

As a pilot project this year, we produced 3 family passes for sale to the public. This was quite popular with local residents and the Arts offer the pass again next year.

In 2005, 2,637 salmon went through the fish ladder, compared with 1,392 last year.

WHITEHORSE RAPIDS FISH HATCHERY

The Whitehorse Rapids Fish Hatchery began operating in 1984 to counteract the numbers of migrating Chinook salmon by being affected by the power plant. In 1996 the hatchery was expanded to accommodate the Yukon government's trout water fisheries program. Freshwater fish such as arctic char, lake trout, rainbow trout and bull trout are raised to stock portable lakes in the southern Yukon, including Hidden, Long and Gloria Lakes among others.

Under a funding agreement with the Yukon government's Department of Environment, Yukon Energy and the government jointly and equally share the operating and maintenance costs of the hatchery, which in 2005 totalled approximately $173,450.00.

R & D Environmental administers, manages and operates the facility year round by way of a contract with Yukon Energy.

FISH HABITAT PROTECTION

2005 was the sixth consecutive year of a long-term juvenile whitefish monitoring program at Aishihik Lake. This program was initiated in 1999 with the goal of preserving the lake whitefish population of Aishihik Lake and ensuring that no significant adverse effects to the lake whitefish fishery result from the operation of the Aishihik Hydro-generating facility. A management regime is now in place to respond to any significant changes attributable to the hydro operations, at an early enough stage to minimize effects on the fishery.

CORPORATE CITIZENSHIP

ROTARY CENTENNIAL BRIDGE AND MILLENNIUM TRAIL

Yukon Energy has been a major supporter of the Millennium Trail – a paved walkway that stretches on either side of the Yukon River in the vicinity of the Corporation's Whitehorse hydro operation. It is the first trail in Whitehorse that is accessible to people in wheelchairs and has been used by hundreds of visitors and residents since it opened this year. In 2005 work was completed on a bridge that spans the Yukon River and joins the two sections of the trail to make a continuous loop. Yukon Energy has contributed approximately $100,000 towards the trail and bridge.

OPPORTUNITIES NORTH CONFERENCE

Yukon Energy was a major sponsor in Opportunities North 2005, a pan-northern business and investment conference designed to showcase the territory's economic potential and to foster economic partnerships. Government, First Nations and business delegates shared information concerning infrastructure and resource development. It was one of the largest business and investment conferences ever held in the Yukon.

FINANCIAL CONTRIBUTIONS TO NON-PROFIT GROUPS

Yukon Energy continues our tradition of sponsoring the good work of non-profit organizations throughout the territory. Through our corporate contributions program, we donated more than $72,000 to 70 community groups in 2005. The list covered everything from sports and recreation, the arts, tourism, education, and health and social services. Here are a few examples of how we have helped community groups this year.

SCHOLARSHIPS

Yukon Energy, in conjunction with Yukon Development Corporation and the Yukon government's Bureau of French Language Services, continued our strong support for Yukon students. In 2005 the three entities provided scholarships worth $15,100 to 10 deserving young adults. These scholarships are a significant investment in our communities and symbolize our ongoing belief in the potential of the young people in the territory. As well as offering general scholarships, members of the First Nation of Nacho Nyak Dun and the Tr'ondëk Hwëch'in First Nation are eligible to be considered for scholarships as part of our Mayo/Dawson Transmission Line Benefits Agreement.

COMMUNITY INVOLVEMENT

It is important to Yukon Energy that we participate actively in the communities we serve. In 2005, Yukon Energy took part in a Student Career Fair in the rural community of Haines Junction. The event drew students, parents and members of the general public from several Yukon communities.

One of our staff assisted with an electrical workshop at a Young Women Exploring Trades Conference that exposed about 120 grade eight girls to various trade-related career options.

Our employees are also very giving of themselves in their free time. Many staff members volunteer for a large variety of community organizations and events.

"The Youth of Today Society, Blue Feather Youth Centre would like to thank Yukon Energy for your financial support towards our arts program. Because of your support we were able to provide many high-risk youth with the opportunity to pursue their creative desires. Because of Yukon Energy's contribution, today two of these young adults have employment in the arts."

– Vicki Durrant, Executive Director, Youth of Today Society, Blue Feather Youth Centre

"FISH ARE MY INSPIRATION. THEY LIVE, GROW, DIE AND ALL THE WHILE THEY GIVE MUCH MORE THAN THEY TAKE. THEY ARE ONE OF THE FEW LIVING CREATURES I KNOW OF THAT NURTURE AND FEED ALL OTHERS WHO SHARE THEIR ENVIRONMENT. I FEEL VERY FORTUNATE BEING ABLE TO SHARE WITH OTHERS THE STORY OF THEIR AMAZING LIFE CYCLE."

– Lawrence Vano, Operations Manager, Whitehorse Rapids Fish Hatchery

BOARD OF DIRECTORS

SENIOR MANAGEMENT

David Morrison,
President and C.E.O.

Les Boisvert,
Manager, Operations, Health & Safety

Hector Campbell,
Director, Resource Planning & Chief Information Officer

Wendy Fendrick,
A/Chief Financial Officer

Linda Greer,
Director, Human Resources & Corporate Services

Alex Love,
Director, Technical Services

Dave Wray,
Director, Operations

FINANCIAL SUMMARY
(in $000s)

	2005	2004	2003	2002	2001
Revenue					
Sales of power	26,296	24,984	24,199	23,786	22,242
Recovery of costs (Note 1)	406	597	488	539	513
Other	185	281	152	270	190
	26,889	25,762	24,839	24,595	22,945
Expenses					
Administration	6,641	5,249	5,057	4,723	4,079
Insurance	909	984	1,228	1,166	746
Operations and Maintenance	5,298	4,431	4,285	4,036	3,871
Fuel	137	210	980	1,269	1,337
Recoverable costs (Note 1)	406	597	488	539	513
Amortization	5,383	6,347	5,886	5,536	5,249
Finance charges	4,500	2,928	3,675	3,823	4,376
Interest income and Allowance for funds used during construction	(206)	(158)	(904)	(318)	(475)
Net Income	3,823	5,196	4,168	3,831	3,247
Capital Assets					
At cost (net of contributions)	208,168	208,180	201,488	193,874	167,988
less: accumulated amortization	61,951	58,890	53,919	49,453	44,940
Net Book Value	146,217	147,290	147,569	144,421	123,048
Utility Return on Equity achieved	9.48%	8.71%	6.78%	6.79%	7.87%
Utility Return on Equity allowed	9.05%	9.14%	9.14%	9.14%	9.14%

Note 1 Recovered costs are from the corporation's parent, sister company, and as part of an insurance claim

FINANCIAL STATEMENTS

AUDITOR'S REPORT

A SECTION OF A CONTROL PANEL AT YUKON ENERGY'S MAYO FACILITY

To the Board of Directors of Yukon Energy Corporation

I have audited the balance sheet of Yukon Energy Corporation as at December 31, 2005 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, proper books of account have been kept by the Corporation and the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Public Utilities Act* and regulations, *the Business Corporations Act* and regulations, and the articles and the bylaws of the Corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
March 24, 2006

LYNDA HARLOW,
ADMINISTRATIVE
ASSISTANT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the financial statements and all other financial information relating to the Corporation contained in this annual report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the financial statements.

Management has established internal accounting control systems to meet its responsibilities for reliable and accurate reporting. These systems include policies and procedures, the careful selection and training of qualified personnel and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditor to discuss auditing and financial matters to assure that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Audit Committee and management.

David Morrison
President & CEO

Wendy Fendrick
Acting Chief Financial Officer

Whitehorse, Yukon
March 24, 2006

BALANCE SHEET
(in thousands of dollars)

As at December 31,	2005	2004
Assets		
Current		
Cash and cash equivalents	$ 4,068	$ 1,719
Accounts receivable (Notes 4 and 16)	4,018	4,490
Materials and supplies	2,099	2,851
Prepaid expenses	217	838
	10,402	9,898
Diesel contingency fund (Notes 3 and 5)	791	772
Property, plant and equipment (Note 6)	158,016	158,800
Deferred water licensing costs (Note 7)	5,871	5,453
Reserve for uninsured losses (Note 11)	-	797
Deferred charges (Note 8)	2,328	1,384
	$ 177,408	$ 176,904
Liabilities		
Current		
Accounts payable (Note 16)	3,256	4,072
Current portion of long-term debt (Notes 13 and 16)	1,454	1,340
Regulatory liabilities (Note 9)	1,775	2,811
	6,485	8,223
Deferred revenue (Note 10)	8,186	8,457
Reserve for uninsured losses (Note 11)	33	-
Contributions in aid of construction (Note 12)	11,799	11,540
Regulatory provision for future removal and site restoration costs	5,618	5,757
Diesel contingency fund (Notes 3 and 5)	791	772
Long-term debt (Notes 13 and 16)	86,114	84,757
	119,026	119,506
Shareholder's Equity		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	39,000	39,000
Retained earnings	19,382	18,398
	58,382	57,398
	$ 177,408	$ 176,904

Contingencies and Commitments (Notes 18 and 19)
The accompanying notes are an integral part of the financial statements.

Approved by the Board

_____ Chair

_____ Director

ONE OF THE CONTROL STRUCTURES AT THE AISHIHIK FACILITY

HIDDEN VALLEY SCHOOL STUDENTS ON A TOUR OF THE WHITEHORSE FACILITIES

STATEMENTS OF INCOME AND RETAINED EARNINGS

(in thousands of dollars)

For the year ended December 31,	2005	2004
Revenue (Note 16)		
Sales of power	$ 26,298	$ 24,904
Other	591	878
	26,889	25,782
Operating expenses		
Administration (Note 14)	7,856	6,780
Operations and maintenance (Note 15)	5,433	4,641
Amortization of property, plant and equipment	4,709	6,115
Amortization of deferred charges and water licensing costs	889	531
	18,887	18,067
Income from operations	8,002	7,715
Other income		
Allowance for funds used during construction	102	115
Amortization of capital assistance	215	299
Interest income	104	43
	421	457
Other expenses		
Interest on long-term debt (Note 18)	4,500	2,926
Provision for uninsured losses (Note 11)	100	50
	4,600	2,976
Net income	3,823	5,196
Retained earnings, beginning of year	18,398	16,851
Dividend	(2,839)	(3,649)
Retained earnings, end of year	$ 19,382	$ 18,398

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

(in thousands of dollars)

For the year ended December 31,	2005	2004
Cash provided from Operations		
Cash receipts from customers	$ 27,361	$ 25,516
Cash paid to employees and suppliers	(15,467)	(11,773)
Interest paid	(4,500)	(2,926)
Interest received	104	43
	7,498	10,860
Cash (used for) provided from Financing		
Repayment of long-term debt	(1,368)	(1,326)
Contributions in aid of construction	776	850
Dividend paid to parent	-	(3,444)
	(592)	(3,920)
Cash used for Investment		
Additions to property, plant and equipment	(4,609)	(6,225)
Proceeds on disposal of property, plant & equipment	52	36
	(4,557)	(6,189)
Net increase in cash and cash equivalents	2,349	751
Cash and cash equivalents, beginning of year	1,719	968
Cash and cash equivalents, end of year	$ 4,068	$ 1,719
Cash and cash equivalents consist of:		
Bank balances	4,068	1,719
	4,068	1,719

The accompanying notes are an integral part of the financial statements

WIND TURBINES
ON HAEKEL HILL

DARRYEL COLLINS,
WAREHOUSE
ADMINISTRATOR

NOTES TO FINANCIAL STATEMENTS December 31, 2005

(tabular amounts in thousands of dollars)

1. NATURE OF OPERATIONS

Yukon Energy Corporation (the "Utility") was incorporated under the *Yukon Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation, a corporation owned by the Government of Yukon. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon. The Utility is not subject to income taxes.

The Utility is subject to overall regulation by the Yukon Utilities Board ("YUB") and specific regulation by the Yukon Territory Water Board. Both boards are independent from the Utility.

Rate Regulation

All operations of the Utility are regulated by the YUB pursuant to the *Public Utilities Act*. There is no minimum requirement for the Utility to appear before the YUB to review rates. However, the Utility is not permitted to charge any rate for the supply of power that is not approved by an Order of the YUB. The Utility is subject to a cost of service regulatory mechanism under which the YUB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment on rate base. Whereas actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The regulatory hearing process used to establish or change rates typically begins when the Utility makes an application for its proposed electricity rate changes over the next one or two forecast years. The YUB must ensure that its decision, which fixes electricity rates, complies with all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon Government through Orders-In-Council that specify how the interests of the customer and Utility are to be balanced.

The YUB typically follows a two-stage decision process. In the first stage, the total costs that the Utility will incur to provide electricity to its customers over the immediate future are approved. The approval of these costs determines the total revenues the Utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the Utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment; and
- the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

As well, in the first stage, the YUB reviews the addition of costs to rate base and assesses these costs to ensure they are prudent.

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by requirements of Yukon Government Order-in-Council 1995/90 and can include a cost-of-service study which allocates the overall utility's cost of service to the various customer classes on the basis of appropriate costing principles.

Normally, the Utility applies for rates in advance of the applicable years. The last rate application was for the 2005 year. Interim hearings may be used between rate applications to deal with unforeseen circumstances which could result in the use of interim rates or riders until the next rate application when rates are reviewed and set as final.

NOTES TO FINANCIAL STATEMENTS
(tabular amounts in thousands of dollars)

Water Regulation
The Yukon Territory Water Board pursuant to the *Yukon Waters Act* decides if and for how long the Utility will have a water license for the purposes of operating hydro generation stations in the Yukon. The licenses will also indicate terms and conditions for the operation of these facilities.

Capital Structure
The Utility's policy is to maintain a relatively constant capital structure of 60% debt and 40% equity. Annual dividends are paid to the parent and typically loaned back in order to maintain this ratio.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation
Effective December 31, 2005, the Utility retroactively adopted the Canadian Institute of Chartered Accountant's guideline 19 entitled "Rate-regulated Operations" pertaining to the disclosure and presentation of information by entities subject to rate regulation. This change in presentation had no effect on the Utility's current or prior year net income or retained earnings. Impacts of accounting for rate regulated operations are further described in Note 3.

The financial statements of the Utility have been prepared by management. They conform to Canadian generally accepted accounting principles ("GAAP") and take into account generally accepted methods and practices of regulatory bodies. The regulatory accounting policies adopted by the Utility may differ from the accounting policies otherwise expected using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that of a non-regulated enterprise (see Note 3). Consequently, the significant accounting policies have been classified accordingly in the notes below.

Rate regulated accounting policies
Property, plant and equipment
The Utility capitalizes an allowance for funds used during construction ("AFUDC") at the weighted average cost of capital. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Regulatory liabilities
Regulatory liabilities represent amounts ordered by the YUB to be held by the Utility on behalf of ratepayers. Typically these amounts are either refunded to the customers or applied to ratepayer deficits through the rate setting process.

Reserve for uninsured losses
As a means of self-insurance, the Utility maintains a reserve for uninsured losses. The reserve is maintained through an annual provision approved by the YUB and collected through customer rates. Variances between the approved annual provision and actual costs incurred are deferred until the following general rate application or until a specific application is made to the YUB requesting recovery from or refund to customers.

PLANT OPERATOR JIM PETELSKI WORKING ON ONE OF THE AISHIHIK TURBINES

PLANT OPERATOR RON KIRKWOOD ANSWERS A STUDENT'S QUESTION DURING A PLANT TOUR

NOTES TO FINANCIAL STATEMENTS December 31, 2005

(tabular amounts in thousands of dollars)

Deferred charges
Deferred charges are recorded at cost less accumulated amortization.

Cost of feasibility studies and infrastructure planning are amortized on a straight-line basis over five and ten years respectively.

Regulatory hearing costs are amortized on a straight-line basis over three years.

Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

Regulatory provision for future removal and site restoration costs
The Utility maintains a reserve for the future removal of property, plant and equipment and the costs of site restoration related to those assets. The costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset and site restoration, net of actual recoveries, are deducted from this account when they do not relate to an asset retirement obligation.

Deferred revenue
Deferred revenue represents a gain on fire insurance proceeds received related to a fire at the Whitehorse Rapids Generating Station in 1997. The gain is being amortized to income at the same rate as the replacement assets.

Diesel contingency fund
The Utility maintains a trust asset and an offsetting trust liability on behalf of ratepayers. The trust is used to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. The Utility is required to file an annual report with the YUB on the fund's activity.

Generally Accepted Accounting Principles
Cash equivalents
Cash equivalents represent short-term highly liquid investments and are carried at cost.

Revenue recognition
All revenues are recognized in the period earned. Revenue from the sale of power is recognized based on cyclical meter readings. Sales of power includes an accrual for electricity deliveries not yet billed.

Materials and supplies
Diesel fuel, materials and supplies are recorded at average cost. Obsolete materials and supplies are recorded at salvage value in the period when obsolescence is determined.

Property, plant and equipment
Property, plant and equipment is stated at cost which includes materials, direct labour, a proportionate share of directly attributable administration overhead, and finance charges capitalized during construction, less accumulated amortization.

NOTES TO FINANCIAL STATEMENTS
(tabular amounts in thousands of dollars)

THE WHITEHORSE RAPIDS DAM

Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	30 to 65 years
Diesel plants	25 to 45 years
Wind Turbines	30 years
Transmission	40 to 50 years
Distribution	25 to 40 years
Buildings	20 to 40 years
Transportation	9 to 31 years
Other equipment	5 to 20 years

Asset retirement obligations
On an annual basis, the Utility identifies legal obligations associated with the retirement of tangible long-lived assets. Where a reasonable estimate of the fair value of these obligations can be determined, the total retirement costs are to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment.

The Utility has determined that it has tangible long-lived assets with associated future legal obligations for retirement. As the Utility anticipates using the assets for an indefinite period, the date of removal of these assets cannot be reasonably determined, and therefore an asset retirement obligation has not been recorded. When the timing and amount of the retirement can be reasonably estimated, an asset retirement obligation and the corresponding increase in property, plant and equipment asset will be recognized.

Contributions in aid of construction
Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or capital assistance from the Utility's parent. These contributions are amortized to income on the same basis as the assets to which they relate. Amortization of contributions from customers is netted on the statement of income against amortization expense, while amortization of capital assistance from the parent is disclosed separately under Other income.

Deferred water licensing costs
Costs related to obtaining water license renewals are deferred and amortized to earnings on a straight-line basis over the term of the license. The Utility operates its hydro generation facilities under three separate water licenses, with terms ranging from 17 to 25 years.

Employee pension plan
The Utility has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. The cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, actuarial gains and losses, and changes in assumptions are amortized over the expected average remaining service period of active employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and actuarial gains and losses. Amortization is on a straight-line basis over the expected average remaining service period of active employees, which is currently 14 years. The transitional asset that arose when this policy was first applied is amortized over the average remaining service period of active employees expected to receive benefits under the benefit plan as of January 1, 2000.

AL PORTER,
ELECTRICIAN

NOTES TO FINANCIAL STATEMENTS December 31, 2005

(tabular amounts in thousands of dollars)

Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, property, plant and equipment, asset retirement obligations, and employee pension obligations. Actual results could differ by a significant amount from these estimates.

Management's estimates and assumptions, especially those affecting the reported amounts of assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the Yukon Utilities Board as described in Note 3.

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

Certain items in these financial statements are accounted for differently than they would be in the absence of rate regulation.

Where regulatory decisions dictate, the Utility defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues in the statement of income as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in earnings in the period that the YUB renders a subsequent decision.

Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process.

NOTES TO FINANCIAL STATEMENTS

(tabular amounts in thousands of dollars)

WIND MONITORING FACILITY ON FERRY HILL

The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2005	2004	Expected remaining recovery/ settlement (years)	For 2005 In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets:				
Deferred charges (Note 8), net book value:				
Feasibility studies	$ 1,498	$ 866	4 to 10	$ (632)
Downsizing costs	119	167	2	48
Hearing costs	622	325	2	(297)
Dam safety review	89	26	2 to 4	(63)
Diesel contingency fund (Note 5)	791	772	Indeterminate	(19)
	3,119	2,156		(963)
Regulatory liabilities:				
Anvil Range Mine dewater revenue (Note 9)	1,775	2,067	Indeterminate	(292)
Insurance proceeds held on behalf of ratepayers (Note 9)	-	744	-	-
Deferred gain on fire insurance proceeds (Note 10)	8,166	8,436	30	(270)
Reserve for uninsured losses (Note 11)	33	(797)	Indeterminate	86
Regulatory provision for future removal and site restoration costs	5,618	5,757	Indeterminate	(139)
Diesel contingency fund (Note 5)	791	772	Indeterminate	19
	16,383	16,979		$ (596)
Net impact	$ (13,264)	$ (14,823)		$ (1,559)

(a) Deferred charges

Deferred charges represent costs which have been deferred and are being amortized over various periods. In the absence of rate regulation, GAAP would require such costs to be recognized in the year incurred.

Feasibility studies

The costs of determining the feasibility of future capital projects that did not result in a capital project are deferred and amortized over five years as approved in the Utility's 1991/92 General Rate Application and re-confirmed in YUB Order 2005-12. Infrastructure planning costs are amortized over ten years as approved by YUB order 2005-12. In the absence of rate regulation, expenses in 2005 would have been $632,000 higher.

Downsizing costs

Costs incurred to assist in downsizing the Utility's workforce are capitalized and amortized to expense over seven years as approved in the Utility's 1993/94 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2005 would have been $48,000 lower.

PAT MARCOFF,
INSTRUMENT
ELECTRICIAN

NOTES TO FINANCIAL STATEMENTS December 31, 2005

(tabular amounts in thousands of dollars)

Hearing costs

The Utility incurred $1,133,000 in costs associated with the YUB regulatory proceedings held in 2005. These costs consist primarily of legal and consulting costs incurred by the Utility of $851,000 and reimbursement of YUB and intervener costs of $282,000. YUB Order 2005-16 directed the Utility to reimburse the YUB and interveners for costs they incurred in the amount of $282,000. YUB Order 2005-17 disallowed $200,000 of the $851,000 of costs incurred by the Utility. The disallowed amount has been recorded as Administration expenses in the current year. YUB Order 2005-12 directed the Utility to defer and amortize the approved hearing costs of $933,000 over 3 years commencing January 1, 2005. In the absence of rate regulation, expenses in 2005 would have been $297,000 higher.

Dam safety review

The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2005 would have been $63,000 higher.

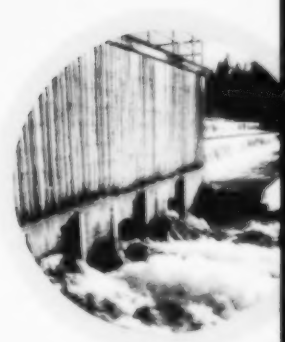
(b) Diesel contingency fund

The Diesel contingency fund ("DCF") was established by YUB Order 1996-6 through the Negotiated Settlement process. The DCF is administered by the Utility on behalf of the YUB, and as such is recorded as a trust asset and a trust liability. The DCF attracts interest based upon short-term bond rates in which the Utility invests the funds held in trust. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit. Pursuant to YUB order 1996-6, the Utility from time to time is required to transfer amounts to or from the trust it maintains on behalf of ratepayers to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. As directed by Board Order 2002-3, the current balance of the DCF consists of the fire insurance gain of $744,000, realized as part of the settlement of the insurance claim arising from the fire at the Whitehorse Rapids Generating Station, plus interest earned on the funds held in trust. In the absence of regulation, GAAP would have required the amounts transferred to and from the DCF, and any interest earned or incurred to be included in the Utility's net income in the year in which they occurred. In the absence of rate regulation, the Utility's net income in 2005 would have been higher by $19,000 from interest earned on the DCF.

(c) Regulatory liabilities

Anvil Range Mine dewater revenue

As directed by YUB Order 1998-5, all revenues, less any incremental costs to provide the service, collected from Anvil Range Mine under Rate Schedule 34 (Faro Mine Firm Shutdown Power) prior to December 31, 2004, were deferred for the benefit of ratepayers pending direction from the YUB. YUB Order 2005-12 confirmed that effective January 1, 2005 the Anvil Range mine site would be charged the General Service-Government rate so there will be no further increases to dewatering revenue. This order also enables the Utility to draw down on the Anvil Range dewater revenue to fund its approved 2005 revenue shortfall. YUB Order 2005-17 set the approved 2005 revenue shortfall at $292,000. In the absence of rate regulation, GAAP would have required only the recognition of actual sales earned during the year. As a result, the Utility's sales of power in 2005 would have been $292,000 lower. The period over which the remaining liability will be recognized as revenue for the benefit of ratepayers is dependent on future YUB Board orders and, therefore, cannot be estimated.



YUKON ENERGY'S
MAYO HYDRO FACILITY

Insurance proceeds held for ratepayers
Insurance proceeds held on behalf of ratepayers represents the residual balance of insurance proceeds after allocation against all reconstruction and operation and maintenance costs related to a fire at the Whitehorse Rapids Generating Station in 1997, pursuant to Board Order 2002-3. As directed by YUB Order 2005-12, the insurance proceeds of $744,000 were applied to the reserve for uninsured losses deficit during the year. In the absence of rate regulation, the insurance proceeds would have been included in income in the year received. The impact on current year net income would be $0.

(d) Deferred revenue
The deferred gain on fire insurance proceeds relates to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to Board Order 2000-3, is being amortized to income at the same rate as the replacement assets. In the absence of rate regulation, GAAP would have required the gain to have been completely recognized as income in the year received. As a result, the Utility's current year net income would have been lower by the amount of the amortization of $270,000.

(e) Reserve for uninsured losses
The YUB has approved the use of a reserve for uninsured damages and injuries as a means of self-insurance. The reserve is maintained through an annual provision approved by the YUB. In order to eliminate the deficit rate payers held as a result of uninsured losses, the Utility was directed by YUB Order 2005-12 to transfer the insurance proceeds being held on behalf of rate payers of $744,000 to the reserve for uninsured loss, and increase the annual provision from $50,000 to $100,000 for the years 2005 to 2007. The annual provision will revert back to $50,000 unless the YUB subsequently orders otherwise. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2005 would have been lower by $86,000. The period over which the reserve will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

(f) Regulatory provision for future removal and site restoration costs
Pursuant to depreciation rates approved by the YUB in the Utility's previous general rate applications, under section 23(1)(b) of the Public Utilities Act, the Utility has maintained a reserve for future removal and site restoration costs. As a result of the YUB Order 2005-12, effective January 1 2005, the Utility is required to maintain this reserve as a regulatory provision in addition to any asset retirement obligations. The provision is not to exceed the cumulative value of the provision at December 31, 2004 of $5,757,000. In the absence of rate regulation, GAAP would have required the Utility to reverse the reserve to retained earnings in 2004. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches $2,000,000. Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2005 expense would have been higher by the amount of actual removal and site restoration costs incurred in the year of $139,000. The period over which the provision will be settled is dependent on the future costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset, and site restoration net of actual recoveries, and is therefore indeterminate.

TARA SCHULTZ,
DRAFTSPERSON

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(tabular amounts in thousands of dollars)

Other items affected by rate regulation

The Utility is required under the *Public Utilities Act* to obtain prior approval from the YUB before making changes to depreciation, amortization, and depletion rates and methods. The YUB permits an allowance for funds used during construction ("AFUDC"), based on the Utility's weighted average cost of capital, to be included in the rate base. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only an interest component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation.

It is the Utility's policy to charge to income, in the year of disposal, any gain or loss upon retirement or disposal of land or vehicles. As approved by the YUB, the gain or loss on all other property, plant and equipment is charged to accumulated depreciation and deferred and amortized over the expected life of the remaining pool of similar assets. In the absence of rate regulation, GAAP would require the gain or loss on the disposal or retirement of all property, plant and equipment to be included in income in the period of disposal or retirement.

YUB Order 2005-12 disallowed capital costs related to the Mayo-Dawson transmission line in excess of $28,996,000. As a result of the YUB order, the Utility wrote down the value of property, plant and equipment related to the Mayo-Dawson transmission line by $1,224,000 in 2005. $554,000 related to costs incurred to correct deficiencies and have been recorded as Operations and maintenance costs (line and substation costs). $671,000 related to legal costs incurred to pursue claims and counter claims against the general contractor and have been recorded as Administration (General office and governance costs). In the absence of rate regulation, net income would not change as GAAP would also require the Utility to record the write-down. Additionally, YUB Order 2005-12 disallows the Utility from earning a return on any additional costs incurred with respect to the Mayo Dawson line as a result of pursuing any claims or counter claims against the general contractor and directs the Utility to record any recoveries from the general contractor in an interest bearing deferred account for future review and disposition by the YUB.

The Utility's policy of maintaining a constant capital structure of 60% debt and 40% equity is reviewed by the YUB as part of the rate setting process and in the determination of the return on rate base. In the absence of rate regulation, the Utility would determine the appropriate capital structure solely based on decisions by the Board of Directors of the Utility, which may differ from the current policy.

All amounts maintained as regulatory assets and liabilities are expected to be recovered or settled over the periods noted above. However, there are risks and uncertainties associated with the recovery or settlement related to potential future decisions of the regulator.

NOTES TO FINANCIAL STATEMENTS

(tabular amounts in thousands of dollars)

CHINOOK SALMON AT THE WHITEHORSE RAPIDS FISHWAY

Rate decision

On October 18, 2005, the YUB issued YUB Order 2005-12 related to the Utility's revenue requirements application dated December 13, 2004 which includes the Utility's 2005 fiscal year. The Utility's application requested changes to certain regulated accounts, the rate charged for Rate Schedule 32 (Secondary Energy), and the elimination of Rate Schedule 34 (Faro Mine Firm Shutdown Power). As a result of YUB Order 2005-12 and related follow-up decisions, effective January 1, 2005, the Utility is entitled to a rate of return on common equity of 9.05%. The major items contained in these decisions are:

(a) to set rates for residential and commercial customers as permanent effective January 1, 2005;
(b) to apply amounts currently recorded as regulatory liabilities in the Anvil Range Mine dewater revenue deferral account, to offset 2005 revenue shortfalls totaling $292,000. Additional amounts up to $292,000 per year can be ordered by the YUB for 2006 and 2007;
(c) to apply the $744,000 balance of the regulatory liability recorded as insurance proceeds held for ratepayers against the reserve for uninsured losses deficit;
(d) to increase the annual appropriation to the reserve for uninsured losses to $100,000 for each of the 2005, 2006 and 2007 years;
(e) implementation of new depreciation rates with the cumulative prior years impact of the rate change amortized to income over the average remaining life of the assets;
(f) discontinue the annual provision for future removal and site restoration, and notify interveners and interested parties when the balance reaches $2,000,000;
(g) limit the inclusion of Mayo Dawson transmission line costs in the Utility's rate base to $28,996,000;
(h) to disallow any further costs incurred on the Mayo Dawson line related to claims and counter claims between the general contractor and the Utility;
(i) to record recoveries received with respect to claims and counterclaims between the utility and the general contractor in an interest bearing deferral account with the future disposition of the balance in the account to be determined by the YUB;
(j) to defer $650,000 of the $851,000 direct costs incurred by the Utility related to the hearing costs account (as forecast in the November 17, 2005 compliance filing submitted to the YUB) and amortize equally over 3 years commencing January 1, 2005;
(k) to pay $282,000 to the YUB and interveners for their costs incurred to participate in the hearing, and to include this amount in the deferred hearing costs account to be amortized equally over three years commencing January 1, 2005;
(l) elimination of rate schedule 34 (Faro Mine Shutdown Firm Power);
(m) approval of an automatic quarterly rate setting mechanism for rate schedule 32 (Secondary Energy) whereby the Utility sets the rate on a quarterly basis at 66.7% of the avoided price of fuel oil and is required to provide the YUB with notification of the quarterly rate change; and
(n) to refund to secondary energy customers the difference of $45,000 between the interim and permanent rates, plus interest of $1,000.

NOTES TO FINANCIAL STATEMENTS December 31, 2005

(tabular amounts in thousands of dollars)

4. ACCOUNTS RECEIVABLE

	2005	2004
Wholesale energy sales	$ 2,666	$ 2,480
Retail energy sales	1,008	590
Other	344	1,420
	$ 4,018	$ 4,490

Wholesale energy sales are made to Yukon Electrical Company Limited, an unrelated company also regulated by the Yukon Utilities Board. Wholesale power energy in 2005 were approximately $16,977,000 (2004 - $16,493,000).

5. DIESEL CONTINGENCY FUND

	2005	2004
Opening balance	$ 772	$ 755
Interest	19	17
Closing balance	$ 791	$ 772

6. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2005 Net book Value	2004 Net book Value
Generation	$ 135,571	$ 43,521	$ 92,050	$ 93,754
Transmission	53,645	10,194	43,451	43,785
Buildings and other equipment	14,288	5,087	9,201	9,080
Distribution	13,575	4,825	8,750	8,261
Transportation	1,594	473	1,121	904
Land and land rights	1,074	–	1,074	1,076
Construction-in-progress	2,369	–	2,369	1,940
	$ 222,116	$ 64,100	$ 158,016	$ 158,800

NOTES TO FINANCIAL STATEMENTS

(tabular amounts in thousands of dollars)

7. DEFERRED WATER LICENSING COSTS

	Cost	Accumulated Amortization	2005 Net book Value	2004 Net book Value
Deferred water licensing costs	$ 8,014	$ 2,143	$ 5,871	$ 5,451

Amortization booked in 2005 was $359,000 (2004 - $336,000).

8. DEFERRED CHARGES

	Cost	Accumulated Amortization	2005 Net book Value	2004 Net book Value
Feasibility studies and infrastructure planning	$ 4,813	$ 3,315	$ 1,498	$ 866
Hearing costs	933	311	622	325
Downsizing costs	334	215	119	167
Dam safety review	231	142	89	26
	$ 6,311	$ 3,983	$ 2,328	$ 1,384

9. REGULATORY LIABILITIES

	2005	2004
Insurance proceeds held on behalf of ratepayers		
Opening balance	$ 744	$ 744
Applied to Reserve for uninsured losses (Notes 3 and 11)	(744)	-
Closing balance	-	744
Nanisivik Mine seawater revenue		
Opening balance	2,067	2,067
Applied to revenue shortfall YUB Order 2005-17 (Note 3)	(292)	
Closing balance	1,775	2,067
	$ 1,775	$ 2,811

SUBSTATION ELECTRICIAN ED CHAPLIN (LEFT) AND MAINTENANCE ELECTRICIAN NICK BALDERAS (RIGHT) MAKE REPAIRS TO A SUBSTATION

BOB GRINGAS,
PLANT OPERATOR
IN MAYO

NOTES TO FINANCIAL STATEMENTS

(tabular amounts in thousands of dollars)

10. DEFERRED REVENUE

	2005	2004
Deferred gain on fire insurance proceeds - capital assets (net of amortization and adjustments of $3,439,000 (2004 - $3,168,000))	$ 8,166	$ 8,429
Other	20	21
	$ 8,186	$ 8,450

11. RESERVE FOR UNINSURED LOSSES

	2005	2004
Opening balance	$ (767)	$ (679)
Provision	100	90
Transfer from Regulatory liabilities (Notes 3 and 8)	744	$
Losses incurred		
Asset replacements	(144)	(178)
Closing balance	$ 33	$ (767)

12. CONTRIBUTIONS IN AID OF CONSTRUCTION

			2005	2004
	Gross	Accumulated Amortization	Net	Net
Capital assistance from parent since 1998	$ 8,655	$ 1,061	$ 7,794	$ 8,010
Contributions from customers since 1998	3,364	231	3,123	2,604
Pre-1998 contributions	1,739	857	882	926
	$ 13,948	$ 2,149	$ 11,799	$ 11,540

The sources of contributions received prior to 1998 were not recorded separately.

AISHIHIK HYDRO TURBINES

13 LONG-TERM DEBT

The Utility's long-term debt is summarized as follows:

	2005	2004
Government of Canada		
$40,000,000 flexible term note bearing interest at 7%, repayable in annual installments of up to $1,000,000 principal, plus accrued interest and secured by mortgage over specific assets	$ -	$ 28,278
Yukon Development Corporation		
$40,000,000 flexible term note bearing interest at 7%, repayable in annual installments of up to $1,000,000 principal, plus accrued interest and secured by mortgage over specific assets	27,867	-
$27,313,661 term note bearing interest at 5.88%, payable monthly, and semi-annual principal payments commencing June 30, 2007 and ending December 31, 2023. The note is unsecured	27,314	27,314
$18,000,000 flexible term note related to the Mayo to Dawson Transmission Line project bearing interest at 6.55%, repayable in annual installments of $450,000 principal, plus accrued interest with the balance of $307,000 due December 31, 2043. The note is unsecured	16,957	17,407
Unsecured advance bearing interest at 6.03%, due one year after demand	3,649	3,649
Unsecured advance bearing interest at 5.403%, due one year after demand	2,839	-
TD Canada Trust		
$12,400,000 term note bearing interest at 7.81% payable in monthly installments of $102,000 interest and principal, with the balance due September 30, 2011. The note is guaranteed by the Yukon Government	8,942	9,449
	87,568	86,097
Less current portion	1,454	1,340
	$ 86,114	$ 84,757

$40,000,000 Flexible term note

The Government of Canada flexible term note was purchased by Yukon Development Corporation (the Utility's parent) on March 30, 2005 with all existing terms and conditions remaining the same. The terms of the flexible term note provide for payments of principal and interest to be deferred and abated, respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts. After adjusting for abated interest, the effective interest rate on this instrument for 2005 is 2.90% (2004 - 2.86%).

Mayo - Dawson Transmission Line Financing
The Utility obtained financing from its parent in the amount of $18 million for a transmission line from the Mayo hydro generating station to Dawson City. The financing was obtained effective September 6, 2003, the date the transmission line came into service. The financing was made under terms that ensure that ratepayers are not paying more in any year than they would otherwise have paid if the transmission line had not been built and Dawson City had continued to be served by diesel generation. The maximum interest payable on the note in any year is determined by a formula which compares the costs and benefits of operating the line. For example, the costs include depreciation, return on equity, and operating and maintenance expense. The benefits include diesel fuel costs not incurred. As per the agreement, total costs, including interest, cannot exceed the benefits.

If the costs of operating the line exceed the benefits in any year, Yukon Development Corporation will pay Yukon Energy Corporation the difference on or before March 31 of the next calendar year.

In 2005, benefits exceeded costs, which resulted in $1,140,000 in interest paid to Yukon Development Corporation. (In 2004, costs exceeded benefits by $241,000 and YDC was required to pay this amount to the Utility.)

Long -term debt repayment
Scheduled repayments for all long-term debt are as follows:

2006	$ 1,454
2007	3,127
2008	3,190
2009	3,270
2010	3,349
Thereafter	73,178
	$ 87,568

Fair value
Fair value at December 31, 2005 of $101 million (2004 - $98.2 million) for all long-term debt was estimated using discounted cash flows based on an estimate of the Utility's current borrowing rate for similar borrowing arrangements.

14. ADMINISTRATION EXPENSES

	2005	2004
Wages, benefits and staff recruiting	$ 3,207	$ 2,961
Consulting and legal services	1,155	265
General office and governance costs (Note 3)	1,075	724
Insurance	909	984
Data and bill processing	554	500
Reimbursed and miscellaneous costs	496	1,007
Communications and corporate contributions	232	176
Environmental and safety management	228	163
	$ 7,856	$ 6,780

NOTES TO FINANCIAL STATEMENTS

(tabular amounts in thousands of dollars)

15. OPERATIONS AND MAINTENANCE EXPENSES

	2005	2004
Wages and benefits	2,829	2,662
Maintenance		
- lines and substations (Note 3)	1,058	539
- hydro, diesel and wind	651	578
- building and vehicle	565	470
Water level measurement	193	182
Fuel	137	210
	$ 5,433	$ 4,641

16. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere, the following table summarizes the Utility's related party transactions for the year.

	2005	2004
Revenue		
Sales of service to:		
- direct parent company	$ 244	$ 469
- wholly-owned subsidiary of parent company	147	136
	$ 391	$ 605
Rate Stabilization Fund revenue from:		
- direct parent company	$ 358	$ 338
Expense		
Payment of interest on long-term & short-term debt to:		
- direct parent company	$ 3,780	$ 1,366
Payment for Financial information system usage to:		
- direct parent company	177	177
Other receipts		
Rural Electrification Support Program funding:		
- direct parent company	$	$ 60
Other payments		
Payment on contribution agreements to:		
- direct parent company	$ 34	$ 36
- wholly-owned subsidiary of parent company	50	60

SENIOR POWERLINE TECHNICIAN CLINT KELLAND AND PLANT OPERATOR BOB GRINGAS IN THE MAYO PLANT

STEVE BLYSAK,
CONTROL CENTRE
OPERATOR

The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Revenue from related parties is reported as Other revenue on the statement of income. The corresponding cost of providing these services is reported as part of administration expense on the statement of income.

Rate stabilization fund revenues are received from the parent in accordance with terms established by the Government of Yukon, which established the fund to protect certain ratepayers by minimizing the impact of rate increases. These revenues are reported on the statement of income as a component of sales of power.

Interest on long-term debt is included on the income statement under Other expenses.

Rural Electrification Support Program funds are received from the parent and are recorded as an offset to the capitalized cost of the respective project.

At the end of the year, the amounts receivable from and due to related entities are as follows:

	2005	2004
Direct parent company		
Accounts receivable	$ 136	$ 574
Accounts payable	$ 5	$ 6
Current portion of long-term debt	$ 904	$ 450
Long-term debt	$ 77,722	$ 47,920
Wholly-owned subsidiary of parent company		
Accounts receivable	$ 40	$ 63
Accounts payable	$ 8	$ -

These balances are non-interest bearing and payable on demand except for long-term debt (Note 13).

17. PENSION COSTS AND OBLIGATIONS

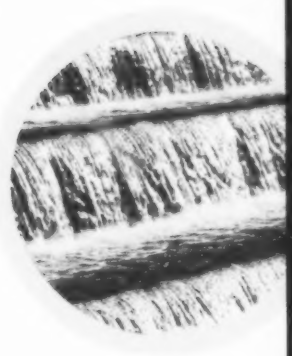
The Utility sponsors a defined benefit pension plan which provides benefits based on length of service and final average earnings as follows:

- years of pensionable service;
- the average annual earnings during any 5 consecutive years of pensionable service where earnings are the highest; and
- the average of the years maximum pensionable earnings (Canada Pension Plan) for the same 5-year period.

Annual cost of living increases to a maximum of 3.00% are provided to pensioners. The Utility contributes amounts as recommended by an independent actuary.

Employees make contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings;
- 5.0% of earnings in excess of year's maximum pensionable earnings to a maximum of $2,500 per year.



December 31, 2005

NOTES TO FINANCIAL STATEMENTS

(tabular amounts in thousands of dollars)

The Utility has contracted with external organizations to provide services of trustee, administrator and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of January 1, 2004 by the consulting actuarial firm AON Consulting Inc. The next valuation for funding purposes will be conducted as of January 1, 2007. The pension costs and obligations were based on the data used in the January 1, 2004 funding valuation and have been projected to December 31, 2005 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by Royal Trust, the plan's custodian, as at December 31, 2005. The plan assets are invested in a pooled balanced fund. The distribution of assets by major asset class is as follows:

	December 31, 2005	December 31, 2004
Equities	62.4%	66.5%
Fixed Income Securities	34.6%	30.1%
Short Term Securities and Cash	3.0%	3.4%

Information about the Utility's defined benefit plan as at December 31, in aggregate, is as follows:

		2005		2004
Discount rate-accrued benefit obligation		5.25%		6.00%
Discount rate-benefit costs		6.00%		6.50%
Expected long-term rate of return on plan assets		6.50%		6.50%
Assumed rate of salary escalation		3.00%		3.00%
Assumed rate of pension indexing		2.50%		2.50%
Expected average remaining service period of active employees		14 years		14 years
Benefit obligation determined by actuarial valuation	$	8,268	$	8,282
Fair value of plan assets		6,144		6,371
Plan deficit	$	2,125	$	911
Unrecognised amount				
– transitional asset		203		220
– net actuarial losses		(1,907)		(741)
Accrued benefit liability	$	421	$	390
Pension expense	$	337	$	286
Employer contributions	$	306	$	320
Employee contributions	$	110	$	132
Benefits paid	$	97	$	299

The accrued benefit liability has been recorded on the Utility's books of account and is included in accounts payable on the balance sheet.

SENIOR POWERLINE TECHNICIAN
CLINT KELLAND

Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined benefit plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and employees hired before January 1, 2002 who belonged to the defined benefit plan and elected to opt out of that plan. The RRSP is a defined contribution plan. The costs recognized for the period are equal to the Utility's contribution to the plan. During 2005, these were $122,000 (2004 - $105,000).

Total cash payments for employee future benefits for 2005, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were $428,000 (2004 - $425,000).

As at December 31, 2005, the Utility's defined pension plan had 40 members (2004 - 41), and the RRSP had 33 members (2004 - 34).

18. CONTINGENCIES

(a) Mayo to Dawson City transmission line project

As discussed in Note 6, the Utility completed the construction of the Mayo to Dawson City Transmission Line project during 2003. Subsequent to energization of the line, the Utility and the general contractor notified each other that they have numerous claims arising out of the agreement and the construction of the line. These claims total several million dollars on a net basis. To date, no legal action has commenced.

In April 2005, the contractor provided the Utility with some additional information. Management is reviewing this information and anticipates further documentation will be required before claims can be fully assessed. Once the documentation stage is complete, the parties will meet to select an appropriate legal process to resolve the outstanding issues. To date, the Utility has not received sufficient information to assess the Utility's exposure.

(b) Federal transfer agreement

Most of the assets of the Utility were purchased under a March 31, 1987 Agreement of Purchase and Sale between the Government of Canada ("Canada"), Yukon Energy Corporation, the Government of Yukon ("YTG") and Northern Canada Power Commission ("NCPC") (the "Transfer Agreement"). There are several claims that the Utility has against Canada under the Transfer Agreement. The various claims are described below.

Yukon Energy Corporation claims against Canada

(i) Claim against Canada Arising from Requirement to Obtain a Fish Authorization in Relation to the Aishihik Facility

In January, 2004, the Utility filed a Writ of Summons against Canada for damages caused by a breach of the Transfer Agreement arising from Canada's notification of the Utility in May, 1999 that the Aishihik Facility required an authorization under the Fisheries Act. The Utility alleges the requirement for a fish authorization was contrary to Canada's representations and warranties under the Transfer Agreement. More particularly it alleges it reasonably relied on warranties and representations given by Canada under the Transfer Agreement to the effect that the Utility had all authorizations necessary for the generation of electricity from the Aishihik Facility. As a result, the Utility incurred significant costs and expenses in negotiating and obtaining a Fisheries Act authorization for the Aishihik Facility and further, its ability to use the Aishihik Facility has been restricted by the terms of the authorization. It is expected that a legal process will be initiated in 2006, resulting in damages being awarded to the Utility which can not be reasonably estimated at this time.

(ii) Soil Contamination at the Whitehorse Facility
The Utility has notified Canada of a claim it has for indemnification for expenditures it incurred on site restoration at the Whitehorse Rapids Dam site for hydrocarbon contamination caused by a diesel fuel spill which occurred when Canada owned the facility. This contamination was discovered in 1999 and was rectified in 2000. In addition, further testing in 2004 revealed one additional area of contamination caused during Canada's ownership of the site. The Utility's claim of approximately $260,000 for indemnification arises under the Transfer Agreement. It is expected that this matter will be resolved in 2006.

19. COMMITMENTS

(a) Aishihik Water Licence
The Yukon Territory Water Board issued a water use license in 2002, valid until December 31, 2019, for the Utility's Aishihik Lake facility. In addition to maintaining a minimum and maximum water level, this license commits the Utility to meet a number of future requirements including:

a) annual payments of $25,000 until 2011 for the purpose of construction and maintenance of a heritage camp and delivery of programs at the camp;
b) a Heritage Mitigation Plan. The Utility spent approximately $35,000 in 2005 on heritage projects, expects to spend up to $50,000 in 2006 and $30,000 in 2007 on heritage projects, and the balance which has not yet been determined in the future; and
c) annual fish monitoring programs.

Fish monitoring programs are also required under an authorization provided by Canada Department of Fisheries and Oceans valid until December 31, 2019. The costs of meeting these requirements are accounted for as water licence costs in the year they are paid.

(b) Financial Information System Lease
The Utility leases a financial information system from the parent. Minimum lease payments for the remaining four years are as follows:

2006	$	177
2007		177
2008		177
2009		147
Total	$	678

(c) Mayo – Dawson Apprenticeship Benefits Agreement
Under this agreement, the Utility is obligated to annual payments of $15,000, adjusted by the percentage change in the Canadian consumer price index, to both The Tr'ondek Hwech'in and the First Nation of Nacho Nyak Dun. The agreement came into effect July 1, 2004 and expires June 30, 2024. The costs of meeting these requirements are expensed to Administration in the year to which they relate.

DANNY SUTHERLAND,
MAINTENANCE
MECHANIC

NOTES TO FINANCIAL STATEMENTS December 31, 2005

(tabular amounts in thousands of dollars)

(d) Mayo – Dawson Transmission Line Option Agreement

The Utility has provided an option to two Yukon First nations to acquire up to a $14,470,000 "indirect interest" in the Mayo-Dawson transmission line system project. The option agreement provides for issuance by the Utility of a long-term debt instrument repayable over forty years, bearing interest equal to the Utility's blended cost of capital, including a component limited to the Utility's realized return on equity. The option expires on January 4, 2007. The option has not been exercised to date.

20. ENVIRONMENTAL LIABILITIES

The Utility's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Utility conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the Utility, is considered probable and the costs can be reasonably estimated. To date, no such specific liabilities have been recorded in the Utility's accounts.

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

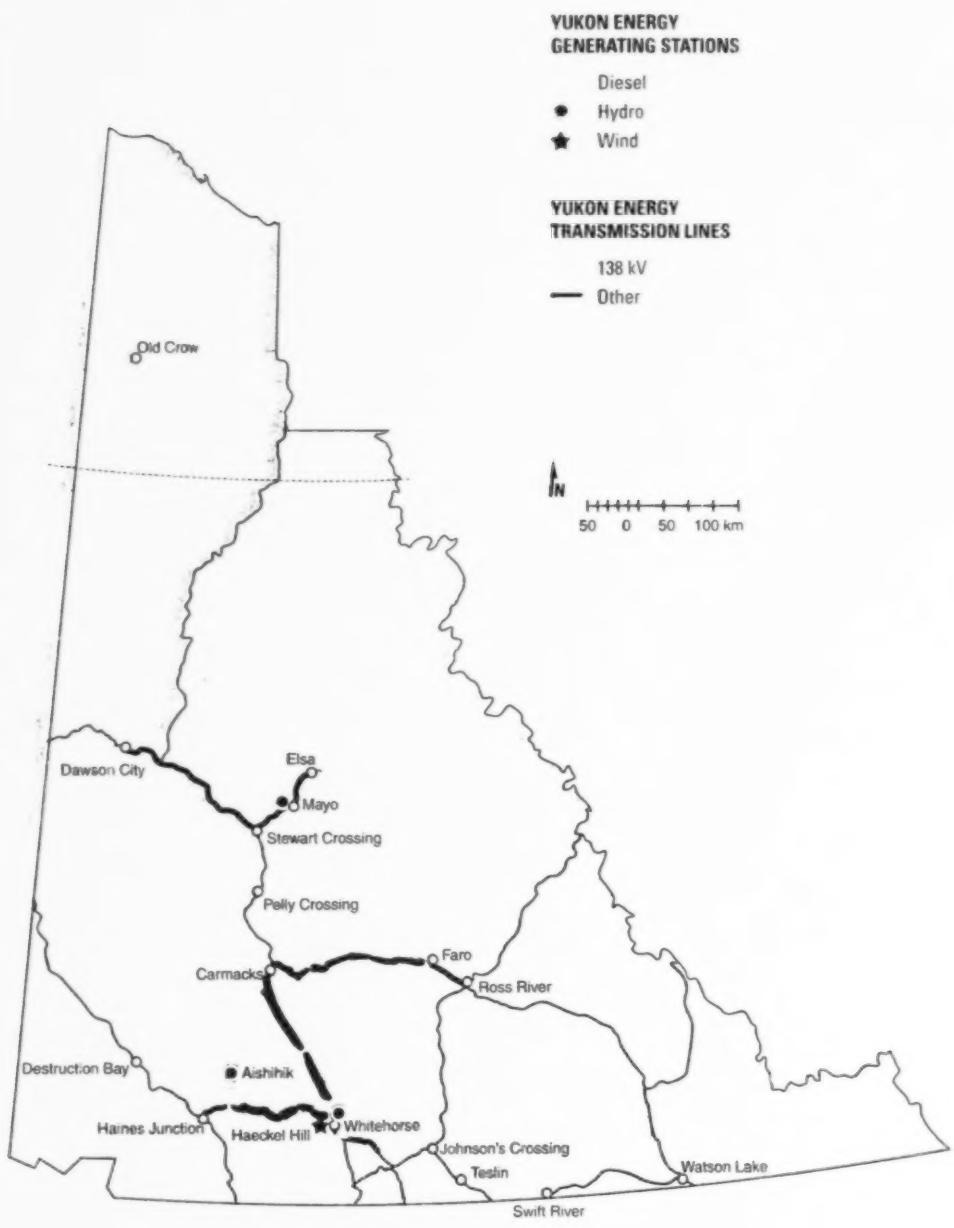
The fair value of cash and cash equivalents, accounts receivable, diesel contingency fund, and accounts payable approximate the carrying amount of these instruments due to the short period to maturity. The fair value of long-term debt is described in Note 13. The Utility also has access to a $10 million line of credit. The renewal date on the line of credit is October 31, 2009. The account accrues interest on withdrawals at prime rate. The facility was not drawn on at year end.

The Utility is not exposed to significant interest rate risk due to its long-term debt having fixed interest rates. The Utility's credit risk is minimal in that its primary customer is a regulated utility.

22. COMPARATIVE FIGURES

Certain 2004 figures have been reclassified to conform with the current year's presentation.

YUKON ENERGY TRANSMISSION AND GENERATION FACILITIES



YUKON ENERGY SYSTEM (in MW)

Hydro Facilities	
Whitehorse (WAF) *	40.0
Aishihik	30.0
Mayo	5.4
Total	75.4
Wind Facilities	
Haeckel Hill	0.8
Diesel Facilities	
Whitehorse (WAF)	25.0
Faro (WAF)	5.4
Dawson	6.0
Mayo	2.0
Total	38.4
Total Yukon Energy System	**114.6**

*WAF: Whitehorse-Aishihik-Faro interconnected grid

YECL SYSTEM (in MW)

Hydo Facilities	
Fish Lake	1.3
Diesel Facilities	
Carmacks (WAF)	1.3
Haines Junction (WAF)	1.3
Teslin (WAF)	1.3
Ross River (WAF)	1.0
Watson Lake	5.0
Beaver Creek	0.9
Destruction Bay	0.9
Old Crow	0.7
Pelly Crossing	0.7
Stewart Crossing	0.3
Swift River	0.3
Total	13.7
Total YECL System	**15.0**

Total Yukon Capacity **129.6**

PHOTOS

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www.derekcrowe.ca inside front cover, pages 6, 9, 10, 11, 12, 16, 17, 20, 21, 23, 24, 26, 28, 29, 31, 33, 36, 40

MAINTENANCE MECHANIC DARRELL JOHNSON WITH STUDENTS FROM HIDDEN VALLEY SCHOOL NORTH OF WHITEHORSE

YUKON ENERGY

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